UNITED NATIONS

UNFCCC Framework Convention on Climate Change

Distr.
GENERAL

FCCC/SBSTA/2000/10/Add.1 (Part III)
3 October 2000

Original: ENGLISH

SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE

REPORT OF THE SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE ON THE WORK OF ITS THIRTEENTH SESSION (PART ONE), LYON, 11-15 SEPTEMBER 2000

Addendum

MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL*

Consolidated text on principles, modalities, rules and guidelines

Note by the chairmen

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* This item was considered jointly by the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation at the first part of the thirteenth sessions, under agenda item 7.

PART THREE

ARTICLE 17 OF THE KYOTO PROTOCOL

I. [Draft decision [C/CP.6]: Principles, modalities, rules and guidelines for emissions trading

The Conference of the Parties,

Recalling Article 17 of the Kyoto Protocol,

***Recalling* its decision 1/CP.3, in particular paragraph 5 (b),**

***Recalling also* its decision 7/CP.4** on a work programme on mechanisms to be undertaken with priority given to the clean development mechanism, and with a view to taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session on, inter alia, relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability of emissions trading, pursuant to Article 17 of the Kyoto Protocol,

***Recalling also* its decision 8/CP.4,**

***Recalling further* its decision 14/CP.5,**

Taking into account all of the relevant provisions contained in **Articles 4 and 12 of the Convention and Articles [3 and 17] [2, 3, 4, 5, 7, 11, 17 and 18] of the Kyoto Protocol**[1], ***[and reflecting provisions contained in appendix X to the annex to this decision],***

Bearing in mind that, in accordance with Article 17, the Parties included in Annex B may participate in emissions trading for the purposes of fulfilling their commitments under Article 3 and that any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex to this decision],

Also bearing in mind [Article 3, paragraphs 10 and 11] [that, in accordance with Article 3, paragraph 10, of the Kyoto Protocol, any emission reduction units, or any part of an assigned amount, which a Party acquires from another Party in accordance with the provisions of Article 6 or of Article 17 shall be added to the assigned amount for the acquiring Party and that, in accordance with Article 3, paragraph 11, of the Kyoto Protocol, any emission reduction units, or any part of an assigned amount, which a Party transfers to another Party in accordance with the provisions of Article 6 or of Article 17 shall be subtracted from the assigned amount for the transferring Party],

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[1] 'Article' means an article of the Kyoto Protocol, unless otherwise indicated.

[*Also bearing in mind* that the purpose of emissions trading is to enable a Party included in Annex B to transfer a part of its assigned amount to another Party included in Annex B if the transferring Party, in the achievement of its commitment, has been able to limit or reduce its emissions [through domestic policies and measures] to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of its assigned amount not being used, which may be transferred to another Party included in Annex B seeking to acquire a part of assigned amount for offsetting domestic emissions exceeding its assigned amount.]

Bearing in mind further the provisions contained in Articles 3 and 17 of the Kyoto Protocol, in accordance with which, any part of an assigned amount, which a Party transfers to another Party shall be subtracted from the assigned amount for the transferring Party and any part of an assigned amount which a Party acquires from another Party shall be added to the assigned amount for the acquiring Party, keeping in view that any such transfers and acquisitions are only for the purpose of contributing to the achievement of compliance with the quantified emission limitation and reduction commitments in Article 3 without altering the assigned amount of the Parties pursuant to their quantified emission limitation and reduction commitments inscribed in Annex B.

Recognizing that the Protocol has not created or bestowed on Parties included in Annex B any right, title or entitlement to emissions of any kind in the pursuance of Articles 6, 12 and 17, and further recognizing that emissions trading under Article 17 is only for the accounting of transfers and acquisitions of parts of assigned amounts for the purpose of fulfilling commitments under Article 3.

***Affirming* that, in their actions to achieve the purpose of emissions trading, the Parties[2] shall be guided by *Article 2 of the Convention and* the principles contained in Article 3 of the Convention** and, inter alia, the following considerations:

[Equity: Equity between developed and developing country Parties includes equity with respect to per capita greenhouse gas emissions for developing country Parties, keeping in view that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs, taking fully into account that economic and social development and poverty eradication are the first and overriding priorities of such Parties, while affirming that Parties included in Annex B shall continue to limit and reduce their emissions with the aim of attaining lower levels of emissions through domestic policies and measures with a view to reducing per capita inequities in emissions between developed and developing country Parties.]

Equity between developed and developing countries relates to equitable per capita emission entitlements for developing country Parties, keeping in view that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs, taking fully into account that economic and social development and poverty eradication are the first and overriding priorities of such Parties, while affirming that developed country Parties shall continue to limit and reduce their emissions with the aim of attaining lower levels of emissions

[2] 'Party' means a Party to the Kyoto Protocol, unless otherwise indicated.

through domestic policies and measures with a view to reducing per capita inequities in emissions between developed and developing country Parties.

[*Recognizing* that the Protocol has not created or bestowed any right, title or entitlement to the Parties included in Annex I to the Convention and in Annex B and that it has not created an international market system or regime;]

[Emissions trading is only for accounting of transfers and acquisitions of parts of assigned amounts between Parties included in Annex B for fulfilling their commitments under Article 3;]

Transparency;

[Climate change effectiveness: Real, measurable and long-term benefits related to the mitigation of climate change shall be achieved.] [Overall emission reductions must not be lower than would otherwise be the case],

Fungibility/non-fungibility: Parties [may] [may not] exchange emission reduction units[, certified emission reductions] and [assigned amount units] [parts of assigned amount] [in accordance with rules and procedures established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to ensure their effective environmental equivalence].

1. ***Decides*** **to adopt,** ***in accordance with these principles,*** **the modalities, rules and guidelines, in particular for verification, reporting and accountability for emissions trading** [pursuant to Article 17 of the Kyoto Protocol] **contained in the annex to this decision;**

2. [*Further decides* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol shall have the authority to accept or reject acquisitions and transfers of parts of assigned amount that have been reported by the Parties participating in emissions trading;]

3. ***Urges*** **the Parties concerned to facilitate the participation in emissions trading of Parties included in Annex I** ***undergoing the process of transition to a market economy;***

4. **[*Decides* that a share of proceeds,** ***in accordance with provisions in the annex to this decision,*** to be used in accordance with Article 12, paragraph 8, **shall be applied to Article 17** transactions and shall be [x per cent of y], of which [no more than z per cent] shall be allocated to administrative expenses and [no less than 100-z per cent] to the adaptation fund[3]. The share of proceeds for assisting in meeting adaptation costs shall be additional to financing by Parties included in Annex I of adaptation activities under other provisions of the Convention and the Protocol;**]**

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[3] An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change and/or to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.

5. [*Also decides* that any body authorized to carry out executive functions on behalf of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol shall have a membership that reflects the unique representational balance established by the practice of the Parties (such as the Bureau of the Conference of the Parties)];

6. ***Also decides*** to review the modalities, rules and guidelines governing the operation of [the emissions trading system] [emissions trading under Article 17], [**that** possible **any future revision of** these ***the*** **modalities, rules and guidelines** ***in the annex*** **shall be by consensus** ***and*** *may be considered, taking* ***shall take*** **into account the relevant experience of Parties,**] **bearing in mind that:**

(a) **The first review shall be carried out no later than** in [2005] [2012] [2013] [2016] **one year after the completion of the first true-up period**[4];

(b) Further reviews shall be carried out [periodically thereafter] [at three-year intervals or upon the request of ...];

(c) [Changes in modalities, rules and guidelines [shall] [may] start taking effect in the commitment period subsequent to that of their adoption;]

7. ***Requests*** [**the secretariat of the Convention**] **to perform functions assigned to it as contained in this decision and its annex**[5], in particular to maintain a publicly accessible list of Parties that [are] [have been found to be] ineligible to participate in emissions trading under Article 17;

8. [*Invites* the Conference of the Parties[, at its __ session,] to take decisions to:

(a) Define the roles of verification and auditing entities, including private sector entities;

(b) Issue guidelines on national allocation and accountability procedures for legal entities;

(c) Track the potential for distortion of competition and include standard checks in the guidelines.]]

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[4] ***True-up period, as defined in the compliance system.***

[5] **The resource implications of this operative paragraph will need to be specified.**

II. Annex

MODALITIES, RULES AND GUIDELINES FOR EMISSIONS TRADING

[Definitions

1. **For the purpose of this Annex:**

(a) **"Party" means, unless the context otherwise indicates, a Party to this Protocol.**

(b) **"Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change.**

(c) **"Article" means an Article of the Protocol, unless otherwise indicated.**

(d) **An "emissions reduction unit" or "ERU" is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.**

(e) **A "certified emissions reduction" or "CER" is a unit issued pursuant to Article 12 and requirements thereunder, equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.**

(f) **Option 1: An 'assigned amount unit' or AAU refers to a part of assigned amount equal to one tonne of carbon dioxide equivalent emissions, calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5 [allocated by a Party in Annex B to its authorized legal entities].**

Option 2: "Assigned amount units" or "AAUs" are units calculated pursuant to Articles 3.7, 3.8, [3.3, and 3.4] each equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.

(g) **A 'part of assigned amount' (PAA) is a part of the assigned amount of a Party** included in Annex B as defined in Article 3[, paragraph 7,] **equal to one tonne of carbon dioxide equivalent emissions, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.**

[(h) "Assigned amount" includes AAUs, CERs and ERUs.]]

(Note: The following paragraphs refer to participation.)

Option A (paras. 2 to 4):

2. **A Party included in Annex I to the Convention and Annex B to the Protocol may participate in emissions trading under Article 17 if it:**

(a) **Has ratified the Protocol**. A Party included in Annex B may transfer a part of its assigned amount to another Party included in Annex B if the transferring Party, in the achievement of its commitment, has been able to limit or reduce its emissions through domestic policies and measures to an extent which exceeds its limitation and reduction commitment, thereby resulting in a part of its assigned amount not being used, which may be transferred to another Party included in Annex B seeking to acquire a part of assigned amount for offsetting domestic emissions exceeding its assigned amount.

(b) [**[Is in compliance] [Is not found to be in non-compliance] with its commitments under Articles** [3,] **5 and 7 of the Protocol** [and Article 12 of the Convention] [in relation to emissions inventories and accounting for assigned amount] [**and the rules and guidelines established for emissions trading and *any other* relevant provisions of the Protocol**].]

(c) Option 1: **[[Is bound by the compliance** [**system**] [regime] **adopted by the COP/MOP] and has not been excluded from participating in emissions trading under Article 17 according to its procedures and mechanisms[, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17];]**

Option 2: Is in compliance with the provisions of paragraphs 3, 5, 8, and 9 of Article 4 of the Convention and the decisions of the COP thereunder and the provisions of Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 4, 5, 7, 11, and 17 of the Protocol and the decisions of the COP or the COP/MOP thereunder;

(d) [Adheres to] [Is not found to be in non-compliance with] [***Complies with***] **the provisions regarding registries contained in decision D/CP.6**;

(e) [Has had its inventory certified by an accredited independent entity according to international standards agreed by the COP/MOP;]

(f) **[Has achieved sufficient emission reductions through domestic [action] [policies and measures] *in accordance with Appendix X*;]**

(g) Has submitted all national communications required of the Party by Article 12 of the Convention and by Article 7 of the Protocol, containing all of the information and supplementary information required by Article 12 of the Convention or by Article 7 of the Protocol, as those requirements may be elaborated from time to time by the COP or by the COP/MOP, respectively, as well as all of the information required by Appendix B to this annex on modalities, rules and guidelines for emissions trading, and the Party's submission of such

national communication for the year immediately preceding the year in which the Party proposes to transfer or acquire [AAUs]/[PAAs] was made in strict compliance with the timetable applicable to such submission.[6]

3. ***Prior to [and after] the start of the first commitment period, the expert teams established under Article 8 shall review the observance by Parties*** *included in Annex I and Annex B* ***of the eligibility criteria listed in paragraph 2 above.***

4. ***If an issue concerning compliance by a Party*** *included in Annex I and Annex B* ***with a provision of Paragraph 2 above, is raised by in accordance with decision...***[7]*:*

(a) **the issue shall be resolved in accordance with decision...**[8]**;**

(b) [AAUs]/[PAAs] may be acquired or transferred by the Party after the issue has been raised, provided that any [AAUs]/[PAAs] acquired after the issue has been raised may not be used by an acquiring Party to meet its commitment under Article 3, paragraph 1 of the Protocol until any issue of its compliance with a provision of paragraph 2, above, has been finally resolved;

(c) if it is determined that, at the time a Party included in Annex I and Annex B acquired [AAUs]/[PAAs] pursuant to Article 17, the Party was not in compliance with any provision of paragraph 2, above, any addition of such [AAUs]/[PAAs] to the Party's assigned amount pursuant to Article 3, paragraph 10 by reason of such acquisition shall be cancelled as of the date of the final determination of non-compliance made pursuant to Decision . . . and thereafter shall not be counted as part of the Party's assigned amount.

Option B (paras. 5 to 8):

5. **In order to transfer or acquire any part of an assigned amount under Article 17, a Party must:**

(a) **Have in place, by the time a report is submitted pursuant to paragraph 6 below and thereafter, a national system for the estimation of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, in accordance with Article 5, paragraph 1, and the requirements in the guidelines decided thereunder;**

(b) **Have in place, by the time a report is submitted pursuant to paragraph 6 below and thereafter, a computerized national registry to account for and track all changes**

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[6] This subparagraph 2 (g) contemplates that, concurrently with adoption by the COP of its decision concerning the rules and guidelines for Article 17, the COP also will adopt appropriate decisions requiring each Annex I Party to include in its national communication detailed information to demonstrate the Party's compliance with Articles 4.3, 4.5, 4.8, and 4.9 of the Convention and the decisions of the COP thereunder and compliance with Articles 2.1, 2.3, 3.2, 3.14, 4, 5, 6, 7 and 11 of the Protocol and the decisions of the COP/MOP thereunder (including the COP's recommended decisions to the COP/MOP concerning those Articles of the Protocol).

[7] **The reference to 'decision . . .' is to the decision establishing a compliance system pursuant to Article 18.**

[8] **Ibid**

in its assigned amount, in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder[9];

(c) Have established, by the time a report is submitted pursuant to paragraph 6 below and thereafter, its initial assigned amount, in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder;

(d) Have submitted, in the report described in paragraph 6 below, one annual inventory for the relevant recent year, [of anthropogenic emissions by sources and removals by sinks of greenhouse gases not controlled by the Montreal Protocol][10] in accordance with the provisions of Articles 5, paragraph 2, and 7, paragraph 1, and the requirements in the guidelines decided thereunder, other than those relating to the deadline for the first submission; and

(e) Have subsequently submitted, for each year following the submission of a report described in paragraph 6 below, annual reports [information] on its assigned amount, in accordance with Article 7, paragraph 1, and the requirements in the guidelines decided thereunder, and annual inventories, in accordance with Articles 5, paragraph 2, and 7, paragraph 1, and the requirements in the guidelines decided thereunder[11];

[(f) Be bound by any compliance [system] [regime] adopted by the COP/MOP; and]

[(g) Have submitted the last required periodic national communication.]

6. A Party may transfer and acquire any part of an assigned amount under Article 17 after [x] months (a specified time period sufficient to allow the Article 8 expert review teams and the enforcement branch of the Compliance [...] a reasonable opportunity to identify and rule upon any problems) have elapsed since the submission of a report to the secretariat documenting that it meets the requirements in subparagraphs 5 (a) through (d)[, (f) and (g)] above, unless the Compliance [...] has found that it has not met one or more of such requirements.

7. A Party may transfer and acquire any part of an assigned amount under Article 17 at an earlier date if the enforcement branch of the Compliance [...] has notified the secretariat that it is not proceeding with any question of implementation relating to the requirements in subparagraphs 5 (a) through (d)[, (f) and (g)] above.

8. A Party may continue to participate, unless and until the Compliance [...] has found that it has not met one or more of the requirements in subparagraphs 5 (a) through [(e)][(g)] above. If the Compliance [...] has found that a Party does not meet one or more

[9] This paragraph assumes that the guidelines for national registries will be decided under Article 7, paragraph 4. It would need to be amended if the guidelines were agreed under another Article of the Kyoto Protocol.

[10] This is without prejudice to elaboration of inventory and reporting requirements for UNFCCC.

[11] Ibid.

requirements above, the Party may participate only if and when the Compliance [...] finds that the Party meets such requirements and therefore reinstates its eligibility to participate.

Option C (paras. 9 and 10):

9. Prior to the start of the first commitment period, the expert review teams established under Article 8 shall review the observance by Parties included in Annex I and Annex B of the following eligibility criteria for transfers and acquisitions under the provisions of Article 3:

(a) Ratification of the Protocol;

(b) Option 1: [[Being bound by the compliance [system] [regime] adopted by the COP/MOP] and not having been excluded from participating in emissions trading under Article 17 according to its procedures and mechanisms[, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17];]

Option 2: The Party is in compliance with the provisions of Article 4, paragraphs 3, 5, 8, and 9 of the Convention and the decisions of the COP thereunder and the provisions of Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 4, 5, 7, 11, and 17 of the Protocol and the respective decisions of the COP or COP/MOP thereunder;

(c) The implementation of a national system for the estimation of anthropogenic emissions by sources and removals by sinks in accordance with the guidelines set out in decision -/CP.6;

(d) The establishment of a national registry system to track parts of an assigned amount, certified emission reductions and emission reduction units transferred or acquired under the provisions of Article 3, paragraphs 10, 11 and 12, in accordance with the guidelines set out in decision D/CP.6;

(e) The completeness and accuracy of the base year greenhouse gas emissions inventory and greenhouse gas inventory report, to standards [to be] established in a decision of the COP/MOP;

(f) The timely submission, completeness and accuracy of the last available annual greenhouse gas inventory and annual greenhouse gas inventory report, to standards [to be] specified in a decision of the COP/MOP;

(g) Option 1: [The submission of the last required periodic national communication, in accordance with the guidelines specified in decision 4/CP.5 or as modified by subsequent decisions of the [COP] [and/or] [COP/MOP].]

Option 2: Has submitted all national communications required of the Party by Article 12 of the Convention and by Article 7 of the Protocol, containing all of the information and supplementary information required by Article 12 of the Convention or by Article 7 of the Protocol, as those requirements may be elaborated from time to time by the COP or by the COP/MOP, respectively, as well as all of the information required by Appendix B to this annex

on modalities, rules and guidelines for emissions trading, and the Party's submission of such national communication for the year immediately preceding the year in which the Party proposes to transfer or acquire [AAUs]/[PAAs] was made in strict compliance with the timetable applicable to such submission.[12]

10. After the start of the first commitment period, the compliance body shall, in accordance with the rules of procedure established in Decision ... and based on the information submitted by the expert review teams or by any Party in accordance with the procedures established in Decision ..., review and make decisions on the continuing observance of the following eligibility criteria:[13]

(a) Submission of the annual greenhouse gas inventory and annual greenhouse gas inventory report by the date decided by the COP/MOP;

(b) Completeness and accuracy of the annual greenhouse gas inventory and annual greenhouse gas inventory report, to standards [to be] specified in a decision of the COP/MOP;

(c) Maintenance of the national registry system in accordance with the guidelines contained in decision D/CP.6;

(d) [Option 1: Submission of periodic national communications, in accordance with the guidelines contained in decision 4/CP.5 or as modified by subsequent decisions of the [COP] [and/or] [COP/MOP];

Option 2: Submission of all national communications required of the Party by Article 12 of the Convention and by Article 7 of the Protocol, containing all of the information and supplementary information required by Article 12 of the Convention or by Article 7 of the Protocol, as those requirements may be elaborated from time to time by the COP or by the COP/MOP, respectively, as well as all of the information required by Appendix B to this annex on modalities, rules and guidelines for emissions trading, and the Party's submission of such national communication for the year immediately preceding the year in which the Party proposes to transfer or acquire [AAUs]/[PAAs] was made in strict compliance with the timetable applicable to such submission];

(e) Compliance with the provisions of Article 4, paragraphs 3, 5, 8, and 9 of the Convention and the decisions of the COP thereunder and the provisions of Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 4, 5, 7, 11and 17 of the Protocol and the respective decisions of the COP or COP/MOP thereunder.

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[12] This subparagraph 9 (g) contemplates that, concurrently with adoption by the COP of its decision concerning these modalities, rules, and guidelines for Article 17, the COP also will adopt appropriate decisions requiring the Annex I and Annex B Party to include in its national communication detailed information to demonstrate the Party's compliance with Articles 4.5, 4.8, and 4.9 of the Convention and the decisions of the COP thereunder and compliance with Articles 2.1, 2.3, 3.2, 3.14, 4, 5, 7, 11, and 17 of the Protocol and the respective decisions of the COP or the COP/MOP thereunder (including the COP's recommended decisions to the COP/MOP concerning these Articles of the Protocol).

[13] The references to 'Decision ...' are to the decision establishing a compliance system pursuant to Article 18.

11. [A Party operating under Article 4 [may] [may not] [acquire] [transfer] [use] any part of assigned amount under Article 17 [to contribute to compliance with its Article 3 commitments] if another Party operating under the same Article 4 agreement, or if a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.]

12. [Arrangements made among subsets of Parties in relation to compliance with commitments in Article 3 and emissions trading, including within regional economic integration organizations, shall be subject to the oversight of, and be accountable to, the COP/MOP.]

13. Changes in a Party's eligibility to participate in emissions trading[, or changes pertaining to new entrants that meet the eligibility criteria,] may occur during the current commitment period.

14. **A Party** included in [Annex I and] Annex B **eligible to participate in emissions trading may authorize its legal entities to transfer or acquire ERUs**[14] **[, CERs**[15]**] and [AAUs] [PAAs]**[16] **under Article 17 [if the Party has established and maintains a national system for accurate monitoring, verification, accountability and allocation of [AAUs] [PAAs] to legal entities and for controlling the effects of trade on the Party's assigned amount, in accordance with appendix A].**

15. **A Party authorizing any legal entity to participate in emissions trading under Article 17 shall maintain an up-to-date list of such legal entities** resident in[, or operating in,] that Party authorized to participate in emissions trading under Article 17 **and make it available to the secretariat and the public** [through its national registry]**.**

16. **A Party authorizing any legal entity to participate in emissions trading under Article 17 shall remain responsible for the fulfilment of its obligations under the Protocol and shall ensure that such *participation is*** transfers and acquisitions are ***consistent with this Annex*** [the principles, modalities, rules and guidelines for emissions trading applying to Parties] [the international guidelines for legal entities]. **Legal entities *may not participate in emissions trading* under Article 17 during any period of time in which the authorizing Party is ineligible according to the provisions of paragraphs *[2 to 4] [5 to 8] [9 and 10]* above.**

17. **A Party participating in emissions trading shall report in accordance with** [appendix B] ***[Article 7].***

(Note: The following paragraphs refer to modalities of operation.)

18. **Transfers and acquisitions of ERUs[, CERs] and [AAUs] [PAAs] [shall] [may] take place through [bilateral and multilateral arrangements between Parties included in Annex I] [bilateral and multilateral arrangements and market exchanges] [an exchange**

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[14] An 'emission reduction unit' (ERU) is defined in accordance with decision D/CP.6.

[15] A 'certified emission reduction' (CER) is defined in accordance with decision D/CP.6.

[16] An ['assigned amount unit' (AAU)] ['part of assigned amount (PAA)] is defined in accordance with decision D/CP.6.

where any initial transfer of [AAUs] [PAAs], by a Party or a legal entity, from the national registry into which these [AAUs] [PAAs] were issued, shall take place through an open and transparent exchange in which offers to transfer or acquire are matched anonymously and on the basis of price.] [Any subsequent transfer and acquisition of [AAUs] [PAAs] as well as any transfer and acquisition of ERUs and CERs may take place through bilateral or multilateral arrangements or market exchanges.] **[Any Party [or legal entity] wishing to transfer or acquire ERUs[, CERs] and [AAUs] [PAAs] shall publish the amount to be transferred prior to the transfer.]**

19. **Transfers and acquisitions of ERUs, CER and [AAUs] *[PAAs]* shall be made by removing units, identified by *unique* serial numbers, from the registry of the transferring Party and adding them to the registry of the acquiring Party.**

20. [Transfers and acquisitions shall be certified by an independent entity designated by the [COP] [COP/MOP], in accordance with rules, modalities and guidelines adopted by the [COP] [COP/MOP].]

21. Option 1: There shall be a [true-up] period [of __ [days] [months], starting from the end of each commitment period and ending with the compliance deadline] [ending __ days after the publication of the final report of the expert review of the inventory of the last Party to be reviewed for the last year of the commitment period], during which Parties may acquire ERUs[, CERs] and [AAUs] [PAAs] for the purpose of eliminating any excess of emissions over assigned amount. A Party, or legal entity, for which emissions at the end of the commitment period exceed its assigned amount, taking account of transfers and acquisitions of ERUs[, CERs] and [AAUs] [PAAs], calculated in accordance with Article 3, [may] [shall] not transfer ERUs[, CERs] and [AAUs] [PAAs].

Option 2: **For [one] month after [the publication of the final report of the expert review of the inventory of the last Party to be reviewed for the last year of the commitment period]** [the date decided by the COP/MOP for the completion of the expert review of the inventories for the last year of the commitment period], **each Party may acquire or transfer [AAUs] [PAAs]** ***issued prior to the end of the*** **commitment period in question,** ***and ERUs and CERs issued for reductions achieved prior to the end of the commitment period in question,*** **in order to fulfil its commitments under Article 3, paragraph 1, for that period.**

(The following paragraphs relate to the share of proceeds.)

22. **[A share of proceeds**, defined as a percentage of the [[AAUs] [PAAs] transferred] [value of each emissions trading transaction], **shall be** ***transferred by the [transferring][acquiring] Party to the appropriate account in accordance with Appendix C*** used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.]

23. [Option 1: The amount of the share of proceeds to be used to cover administrative expenses shall be assessed by [YYY] and retained by [ZZZ]. The [remaining] share of proceeds collected to be used to assist developing country Parties that are particularly vulnerable to the

adverse effects of climate change in meeting the costs of adaptation shall be transferred to an adaptation fund to be established by the [COP] [COP/MOP].]

24. [Option 2: The share of proceeds to assist in meeting adaptation costs shall be the same as for Article 12, paragraph 8.]

(Note: The following paragraphs refer to issues related to compliance.)

25. **Option 1: Originating Party liability: A Party whose actual emissions for the commitment period after the** compliance deadline ***true-up period referred to in paragraph 21 above*** **exceed *the*** its assigned amount, taking account of transfers and acquisitions of **ERUs, CERs and [AAUs] [PAAs] *it has retired for compliance purposes***, calculated in accordance with Article 3, **shall be subject to the provisions of the compliance [system]** [regime] **adopted by the COP/MOP.**

Option 2: Shared liability: If a Party is found to be in non-compliance with its commitments under Article 3, a portion of any of its [AAUs] [PAAs] that have been transferred to other Parties under the provisions of Article 17 shall be invalidated and cannot be used for the purpose of meeting commitments under Article 3 or further traded. The portion to be invalidated shall be a multiple of the degree of non-compliance. The degree of non-compliance is the percentage difference between emissions in the commitment period and the assigned amount, taking account of transfers and acquisitions of ERUs, CERs and [AAUs] [PAAs], calculated in accordance with Article 3.

Option 3: Acquiring Party liability: If a Party included in Annex I is in non-compliance with its commitments under Article 3, that part of the assigned amount that has been transferred in accordance with Article 17 shall be invalidated.

Option 4: 'Trigger': If a question is raised concerning a Party's compliance with its commitments under Article 3 and the Party is subsequently found to be in non-compliance, any [AAUs] [PAAs] that have been transferred to other Parties under the provisions of Article 17 after the point in time at which the question was raised shall be invalidated and cannot be used for the purpose of meeting commitments under Article 3, or further traded. Such questions can only be raised in particular circumstances to be defined.

Option 5: Compliance reserve: A portion [x per cent] of every transfer of [AAUs] [PAAs] under Article 17 shall be placed in a compliance reserve. These [AAUs] [PAAs] may not be used or traded. At the end of the commitment period, such [AAUs] [PAAs] shall be returned to the Parties of origin if those Parties are in compliance with their commitments under Article 3, in which case the [AAUs] [PAAs] can be transferred or banked for future commitment periods. If, at the end of the commitment period, a Party is not in compliance with its commitments under Article 3, an appropriate portion of units deposited in the reserve account shall be invalidated, in which case it may not be further used or traded.

Option 6: Commitment period reserve: A portion *not to exceed [x] [98] percent* of the assigned amount of each Party included in Annex I shall be placed in a commitment period reserve *account in the Party's national registry*. This portion shall be:

Option (i): **determined by projecting emissions for 2008-2012 for each Party included in Annex B** *[on the basis of] [using a straight line, fitted by least-squares regression analysis, to the Party's]* **emissions for 2000-2006, as reviewed** and verified **pursuant to Article**s 5 and **8. The portion of the assigned amount placed in the commitment period reserve for each Party** included in Annex B shall equal its projected emissions for 2008-2012 and **shall not be used or traded. At the end of the commitment period, Parties which are in compliance with their commitments under Article 3 may transfer or bank [AAUs] [PAAs] held in the commitment period reserve.**

Option (ii): calculated by using the Party's most recent emissions data to estimate five years of emissions, giving the most weight to the most recent emissions data. Specifically, until emissions data for 2009 are available, the reserve will be equal to five times the emissions during the most recent year for which emissions data [reviewed by the expert review team] are available. After the Party's 2009 emissions data are available, the reserve will be the sum of the actual emissions during the years from 2008 onwards, with the last year weighted as necessary to bring the total to five years.[17]

If a revision of the reserve calculation reduces the size of the reserve, an appropriate quantity of [AAUs] [PAAs] may be transferred from the Party's commitment period reserve account. If a revision of the reserve calculation increases the size of the reserve, the Party must transfer sufficient [AAUs] [PAAs], ERUs, or CERs into its commitment period reserve to bring the total to the required amount before it is allowed to transfer any [AAUs] [PAAs], ERUs or CERs from any of its accounts.

The calculation of the commitment period reserve and revisions thereto will be reported in accordance with Article 7.

Option 7: Units in surplus to plan: Emissions trading under Article 17 shall operate under an annual post-verification trading system limited to [AAUs] [PAAs] determined to be surplus to a Party's allocation plan. Each Party that wishes to undertake transfers under Article17 shall allocate its total assigned amount among the five years of the commitment period and notify the secretariat of these annual allocations prior to the start of the commitment period. A Party can at any time adjust its annual allocation for the remaining years of the commitment period by notifying the secretariat in advance of the year(s) in question. The assigned amount allocation to any single year should not exceed plus or minus 5 ~~20~~ per cent of the total assigned amount divided by five.

Excess [AAUs] [PAAs] for a given year shall be calculated as follows:

(a) Cumulative assigned amount allocation from the beginning of the commitment period through the given year;

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[17] ***For example, when the emissions data for 2010 become available, the reserve will be calculated as the sum of the 2008, 2009 and three times the 2010 emissions.***

(b) Less cumulative emissions from the year 2006 ~~beginning of the commitment period~~ through the second last year prior to the given year;

(c) Less the amount of excess [AAU] [PAA] certificates issued for previous years of the commitment period and cumulative ERUs transferred under Article 6 (holdings of ERUs and CERs shall not be included in the calculation).

The secretariat shall verify the availability of excess [AAUs] [PAAs] and issue certificates for them. All issued certificates shall be valid on the market without any liability or trade-specific compliance rules.

Option 8: Surplus units: Only excess reductions may be transferred and acquired under Article 17, after the adjustments taking into account the transfers of ERUs and CERs. The assigned amount is the emission reduction commitment of a developed country Party. A Party included in Annex I to the Convention and in Annex B may transfer a part of its assigned amount to another such Party under Article 17 if that Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used. Nothing else can be transferred and acquired under Article 17.

Option 9: Mixed liability: If a Party which has transferred parts of an assigned amount to another Party under the provisions of Article 17 is found to be in non-compliance with its commitments under Article 3, a portion of the transferred parts of assigned amount corresponding to the amount by which the emissions of the transferring Party exceeded its assigned amount and determined in the reverse chronological order of the original transfer (Last In, First Out), shall be temporarily invalidated and cannot be used for the purpose of meeting commitments under Article 3.1 for the period during which these parts of assigned amount were issued. The transferring Party remains liable for the entirety of its excess emissions and shall face the consequences provided for the breach of commitments under Article 3 under the compliance system. The invalidated parts of assigned amount may be banked by the acquiring Party under the provisions of Article 3.13 but may not be used for the purpose of meeting commitments under Article 3.1 until the Compliance Authority deems the transferring Party to have fulfilled any requirement resulting from the breach of commitments identified above.

Option 10: Each Party shall prepare its emissions projections for the years 2008-2012 and included them in the national communication for the year 2007. If a Party transfers part of its planned reduction (AAUs from a difference between assigned amount and projected emissions), a portion of [3%] of every transfer of AAUs under Art. 17 shall be placed in a compliance reserve. A portion of [20%] of every transfer of AAUs exceeding planned emissions reduction shall be placed in a compliance reserve. If a transferring Party is in compliance with Art.3 commitments at the end of the commitment period, AAUs put by this Party into the compliance reserve shall be returned to this Party and can be further transferred with no restrictions or banked for future commitment periods. If at the end of the commitment period, a Party is not in

compliance with its commitments under Article 3 an amount of AAUs deposited by that Party in compliance reserve equal to the number of units of excess emissions shall be invalidated. If there is no sufficient AAUs in the given Party reserve account to cover that excess, all AAUs deposited by that Party in the compliance reserve will be invalidated, the Party will undergo the procedures under Art.18 and moreover the AAUs transferred by that Party with putting 20% to the reserve will be invalidated.

26. [If a question of compliance by a Party with the eligibility criteria for emissions trading under Article 17 is identified by the review process under Article 8, transfers and acquisitions of [AAUs] [PAAs] may continue to be made after the question has been identified, provided that any such units may not be used by a Party to meet its commitments under Article 3 until any issue of compliance is resolved in favour of the Party in question. Such a question shall be expeditiously resolved [through a general procedure applicable to the Protocol] [through a specialized procedure].]

27. **The secretariat of the Convention shall perform functions as requested by Parties and, in particular, shall maintain a publicly accessible list of Parties** ***[and legal entities]*** **that are ineligible to participate in emissions trading under Article 17.**

Appendix X (to the annex to decision C/CP.6 on emissions trading)

/Supplementarity

(Note: In the interest of further consolidating the text, the former option 3 – now option 2 – is presented below as originally submitted.)

Limits on acquisitions

1. Option 1: No elaboration of the term "supplemental".

Option 21: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms pursuant to Article 6, 12 and 17 in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 32 (1): Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Option 2 (i): **Net transfers by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed:**

5 per cent of: its base year emissions multiplied by 5 plus its assigned amount
2

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5').

However, the ceiling on net transfers can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Option 3 (ii): The overall 'cap' on the use of the three mechanisms pursuant to Articles 6, 12 and 17 should not exceed 25-30 per cent.

Option 4*3*: **Access to Article 17 by a Party included in Annex I is contingent on [satisfaction of prescribed domestic effort in fulfilment of commitments]** [domestic policies and measures being the principal means of achieving its quantified emission limitation and reduction commitment] **under Article 3. [A concrete ceiling for the total assigned amount acquired from the emissions trading under the Article 17 shall be defined in quantitative and qualitative terms based on equitable criteria.]** [A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 shall be defined. Commensurate non-compliance processes must be prescribed].

A Party included in Annex B **may transfer a part of its assigned amount to another Party** included in Annex B **under Article 17, if the transferring Party**, in the achievement of its quantified emission limitation and reduction commitment under Article 3, **has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used.** This part of the assigned amount, which has not been used because of emissions having been limited and reduced below the assigned amount of emissions, represents the difference between the assigned amount of the Party and its domestic emissions. Transfers and acquisitions under 'emissions trading' in Article 17 pertain only to a part of the assigned amount which has remained unused on account of the emissions having been limited and reduced below the assigned amount of emissions. Only the excess limitation and reduction of emissions by a Party included in Annex B, resulting in the prevention of a part of its assigned amount of emissions, and nothing else, can be transferred and acquired under Article 17. **Nothing else can be transferred and acquired under Article 17.**

Option 5: It is necessary to set limits on the use of mechanisms pursuant to Articles 6, 12 and 17 to meet emission targets in the first commitment period. However, if objective criteria to prevent hot air are established, it might be reasonable to remove limits in the second and third commitment periods.

[Limits on transfers

2. Option 1: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms pursuant to Articles 6, 12 and 17 in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment;

Option 2 (i): Net transfers by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed:

$$5 \text{ per cent of: } \frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5').

However, the ceiling on net transfers can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Option 2 (ii): The overall 'cap' on the use of the three mechanisms pursuant to Articles 6, 12 and 17 should not exceed 25-30 per cent.

Option 3: Access to Article 17 by a Party included in Annex I is contingent on [satisfaction of prescribed domestic effort in fulfilment of commitments'] [domestic policies and measures being the principal means of achieving its quantified emission limitation and reduction commitments] under Article 3. A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 shall be defined. Commensurate non-compliance processes must be prescribed.

A Party included in Annex B may transfer a part of its assigned amount to another Party included in Annex B under Article 17, if the transferring Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used. This part of the assigned amount, which has not been used because of emissions having been limited and reduced below the assigned amount of emissions, represents the difference between the assigned amount of the Party and its domestic emissions. Transfers and acquisitions under 'emissions trading' in Article 17 pertain only to a part of the assigned amount which has remained unused on account of the emissions having been limited and reduced below the assigned amount of emissions. Only the excess limitation and reduction of emissions by a Party included in Annex B, resulting in the prevention

of a part of its assigned amount of emissions, and nothing else, can be transferred and acquired under Article 17. Nothing else can be transferred and acquired under Article 17.

Option 4: It is necessary to set limits on the use of mechanisms pursuant to Article 6, 12 and 17 to meet emission targets in the first commitment period. However, if objective criteria to prevent hot air are established, it might be reasonable to remove limits in the second and third commitment periods.]

[Issues related to Article 4]

3. [Any limitations on the transfer or acquisition of assigned amount under Article 17 shall apply to the allocation of emission levels under Article 4.]

4. **[Any limitations on** the ***net*** **transfers or acquisitions of assigned amount under Article 17 shall apply to each individual Party operating under Article 4.]**

5. **[Re-allocations under Article 4 shall count against the limitations referred to in paragraph 1 above.]]**

[Appendix A (to the annex to decision C/CP.6 on emissions trading)

Domestic systems]

Appendix B (to the annex to decision C/CP.6 on emissions trading)

Reporting by Parties

(Note: This appendix relates to all mechanisms and is repeated in each mechanisms decision. It could alternatively be incorporated into the guidelines to be adopted under Article 7.)

1. In accordance with the guidelines under Article 7 [and Article 5, paragraph 2], each Party included in Annex I shall incorporate in its annual inventory of anthropogenic emissions by sources and removals by sinks, the following information:

(a) Holdings of ERUs, CERs and [AAUs] [PAAs] in its registry at the [beginning] [end] of the year, identified by serial numbers;

(b) Initial transfers of ERUs and issuance of CERs and [AAUs] [PAAs] to and from its registry during the year, identified by serial and transaction numbers;

(c) Transfers and acquisitions of ERUs[, CERs] and [AAUs] [PAAs] to and from its registry during the year, identified by serial and transaction numbers;

(d) Retirement of ERUs, CERs and [AAUs] [PAAs] from its registry during the year, identified by serial and transaction numbers;

(e) ERUs, CERs and [AAUs] [PAAs] to be banked forward to a subsequent commitment period, identified by serial number;

(f) A uniform resource locator (URL) in the Internet from which up-to-date information may be downloaded on names and contact details of legal, private and public entities, resident within the jurisdiction of the Party, which are authorized or approved to participate in the mechanisms pursuant to Articles 6, 12 or 17.

2. In accordance with the guidelines under Article 7, each Party included in Annex I shall incorporate information on the following into its national communication:

(a) Project activities under Articles 6 and 12;

(b) How its CDM project activities have assisted Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention;

(c) Option 1: [An estimate of the expected contribution that acquired CERs will make towards compliance with its quantified emission limitation and reduction commitment under Article 3 and the expected contribution of domestic actions.]

Option 2: The Party's current, best estimates of:

(i) the total amount of greenhouse gas emissions (expressed in tonnes of carbon dioxide equivalent) that the Party will be required to reduce, avoid, or sequester during the first commitment period, without taking into account net acquisitions of ERUs, CERs, or [AAUs]/[PAAs], in order to comply with its quantified emission limitation and reduction commitment under Article 3 of the Protocol; and

(ii) the amounts of ERUs, CERs, and [AAUs]/[PAAs], individually and in the aggregate, the Party expects to acquire (net of transfers by the Party) during each year of the first commitment period;

(d) The principal assumptions and the methodologies used by the Party in developing the estimates required by subparagraph 2 (c), which shall be in a level of detail sufficient to enable a clear understanding of the bases for the estimates;

(e) The annual contributions by the Party to each of the Funds established by the COP with respect to Article 4, paragraphs 3, 5, 8, and 9 of the Convention and to each of the Funds established by the COP/MOP with respect to Article 2, paragraph 3, Article 3, paragraph 14, and Article 12 of the Protocol, showing the date of each contribution since establishment of each Fund;

(f) The Party's current, best estimate, expressed qualitatively and quantitatively, of the effects of its policies and measures undertaken pursuant to Article 2, paragraphs 1 and 2 and otherwise undertaken to achieve its quantified emission limitation and reduction commitment under Article 3, paragraph 1 on developing countries and in particular those identified in Article 4, paragraphs 8 and 9 of the Convention, including the Party's best quantitative estimates of the effects of those policies and measures on such developing countries with respect to:

(i) the unit quantity and monetary amount of raw materials, fuels, and finished goods exported to the Party by developing countries in each year during the period 2000 through 2012;

(ii) the prices of finished goods imported from the Party by developing countries in each year during the period 2000 through 2012; and

(iii) the interest rates and the total interest payable by developing countries to the Party and its legal entities on the external debt of developing countries during the period 2000 through 2012,

together with disclosure of the principal assumptions and the methodologies used by the Party in developing all of the estimates required by subparagraph 2 (c), which shall be in a level of detail sufficient to enable a clear understanding of the bases for the estimates;

(g) All steps taken by the Party to comply with its commitments contained in Article 2, paragraph 3 and Article 3, paragraph 14 of the Protocol, including steps taken to remove subsidies and other market distortions and tax restructuring to reflect the GHGs content of the

emitting sectors, and detailed information describing how and the extent to which each such step contributed to minimizing the adverse effects and impacts referred to in those Articles and in the information provided pursuant to subparagraph 2 (c), together with a statement of the principal assumptions and the methodologies used by the Party in developing the information required by this subparagraph (g), which shall be in a level of detail sufficient to enable a clear understanding of the bases for the information; and

(h) All steps the Party has taken and anticipates taking to comply with its commitment contained in Article 3, paragraph 2 of the Protocol, including detailed explanation as to why the Party believes, with respect to each of its separate commitments contained in the Protocol, the described steps do or do not constitute "demonstrable progress in achieving" each such commitment.

3. Parties not included in Annex I shall report on CDM project activities to which they are host in the context of their reporting commitments under Article 12 of the Convention. [This reporting shall include how they have assisted Parties included in Annex I in achieving compliance with their commitments under Article 3.]

Appendix C (to the annex to decision C/CP.6 on Article 17)

[Determination and allocation of the share of proceeds

1. **The share of proceeds *is defined as*** *[*shall be defined in accordance with the following provisions, or any subsequent revisions to them adopted by the COP/MOP]:

Option A

X percent of the [number] [value] of the initial transfer of [AAUs] [PAAs] from a registry into which they were issued.

The share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall be transferred by the [transferring] [acquiring] Party to an appropriate account maintained for this purpose by the adaptation fund established by the COP/MOP.

Option B:

(a) A proportion of the number of transfers of [AAUs] [PAAs] transferred between Parties included in Annex B under Article 17;

(b) The level of the share of proceeds is __ per cent;

(c) Option 1: No more than __ per cent of the amount of the share of proceeds shall be used to cover administrative expenses. The remaining amount of the share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall be transferred to an adaptation fund established by the COP/MOP.

Option 2: Ten per cent of the amount of the share of proceeds shall be used to cover administrative expenses; 20 per cent shall be provided to the adaptation fund; and 30 per cent shall be provided to the host Party of the project activity to assist it in achieving its sustainable development objectives**]**.

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